

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2001-572

October 29, 2001

NORTHERN UTILITIES, INC.,
Proposed Cost of Gas
Factor for the 2001 - 2002
Winter Period and Annual
Environmental Recovery Cost
Adjustment

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) proposed Cost of Gas Factor (CGF) for the 2001 - 2002 winter period and an Environmental Response Cost Adjustment (ERCA) of \$0.0061 per Ccf.

II. PROCEDURAL HISTORY

On August 15, 2001, pursuant to 35-A M.R.S.A. § 4703 and Chapter 430(2) of the Commission's Rules, Northern filed its proposed CGF for the Winter 2001 - 2002 gas usage period as well as its proposed change to the ERCA as allowed in Docket No. 96-678. The Commission issued a Notice of Proceeding to interveners in prior CGF cases and by publication in newspapers of general circulation in Northern's service area.

The Office of the Public Advocate (OPA) intervened. To investigate the proposed CGF changes, the Advisory Staff issued data requests to the Company on its filing. A preliminary hearing was held on September 26, 2001 at which the Advisory Staff and OPA explored the issues raised by this filing.

On September 24, 2001, Northern notified the Commission that it would revise its CGF filing to incorporate additional pipeline capacity costs of \$179,705 related to its proposed contract with Granite State Gas Transmission, Inc. (Granite).¹ On October 3, 2001, in response to Advisor's Data Request No. 2, Northern indicated that it would also be correcting its CGF filing to remove gas costs related to Bay State Gas Company's portfolio which were inadvertently included in the annual reconciliation for last winter's cost of gas for Northern's Maine Division. On October 17, 2001, Northern filed its updated CGF

¹ Northern filed for approval of an amendment to its pipeline capacity contract with Granite on September 12, 2001 under §707 as it is an affiliated transaction. The Commission assigned that matter Docket No. 2001-634 and will issue a separate order addressing the merits of the contract in that docket.

to reflect the above two items, adjust for the current NYMEX prices as of October 12, 2001, and revise the finance cost of inventory to the current lower rate. These items resulted in a decrease in the proposed CGF rates of an average of approximately \$0.0362 cents per hundred cubic feet (ccf) or approximately 5%.

III. RECORD

The record in this proceeding includes all filings, data responses, transcripts, and any other materials provided in this proceeding.

IV. DISCUSSION

A. Overview of Proposed Rates

Northern proposes the following 2001 - 2002 Winter Period CGF rates on a per hundred cubic feet (Ccf) basis as updated in its October 17, 2001 filing to become effective November 1, 2001:

Class	Rate
Residential - Heat & Non-Heat (R-2 & R-1)	\$0.7841
Small Commercial - Low Winter Use (G-50)	0.5292
Small Commercial - High Winter Use (G-40)	0.8620
Medium Commercial - Low Winter Use (G-51)	0.5888
Medium Commercial - High Winter Use (G-41)	0.8278
Large Commercial/Industrial – Low Winter Use (G-52)	0.5270
Large Commercial/Industrial – High Winter Use (G-42)	1.0489

The original filing also includes an ERCA of \$0.0061 for the 2001 – 2002 Winter period that reflects the costs incurred during the period July 2000 to June 2001 in accordance with the settlement in Docket No. 96-678.

The issues related to these proposed rates are discussed separately below.

B. Issues

1. Last Winter Period Under-collection

Northern reported an under-collection from the last winter period of approximately \$3,134,454 of which \$1,479,062 was related to demand and \$1,655,392 was related to commodity. Northern states that this under-collection resulted from a combination of greater-than-forecasted gas costs, due in significant part to large increases in the market price of gas supplies, and less-than-forecasted gas sales. On October 17, 2001, Northern corrected the reconciliation, decreasing the total under-collection for commodity by \$773,786 to \$879,916. The correction removed certain natural gas

purchases that were erroneously included in Northern's commodity costs. Upon further review, Northern determined that the invoices were for Bay State Gas Company purchases. The total under-collection for the Winter 2000-2001 period was \$2,358,978.

Maine law allows for the recovery of prior period cost of gas under-collections, with interest, during the next corresponding seasonal period. 35-A M.R.S.A. § 4703 and Chapter 430 of the MPUC Rules. Accordingly, the Winter 2000 – 2001 under-collection increases the proposed Winter 2001-2002 period cost of gas by approximately \$0.0687 cents per ccf for all customer classes.

2. Capacity Contract with Granite State Transmission Inc.

Northern has entered into three supplemental supply contracts to replace supplies originally proposed from the Wells LNG storage facility. The Commission reviewed the proposed contracts as part of its review of the proposed abandonment of the Wells facility in Docket No. 99-259.² For the supplemental supply to reach the Northern system, Northern has entered into an agreement with Granite State, amending its prior contract to increase Northern's capacity on the pipeline by 18,000 MMBtu per day. Through an oversight Northern did not include the increased costs related to this capacity in its original filing but made this correction in its revised filing of October 17th.

Northern's proposed amended contract with Granite requires affiliated transaction review and approval by this Commission before it is legally effective. Northern filed its proposed contract pursuant to 35-A M.R.S.A. §707 on September 13, 2001 and requested review and approval to allow the amended contract to take effect on November 1, 2001, at the beginning of the winter CGF rate season. The Commission assigned this matter Docket No. 2001-634.³ Our review of the contract is currently underway but is unlikely to be completed by November 1, 2001.⁴ However, because of the relatively small size of this cost, we find its impact on rates to be insignificant and will not require Northern to revise its tariffs to remove the cost of this amendment from its proposed winter 2001-2002 CGF rates. Our decision in this docket does not constitute approval of Northern's proposed amended contract with Granite. We will decide whether

² *Northern Utilities, Inc., Investigation of Decision to Terminate Agreement with Affiliate, Granite State Gas Transmission Company for LNG Services.*

³ *Northern Utilities, Inc., Request for Approval of Affiliated Interest Transaction for an Amendment to a Gas Transportation Contract with Granite State Gas Transmission, Inc.*

⁴ Section 707 allows the commission a minimum of 60 days for review of affiliate transactions, though the time may be extended to 120 days if necessary. Sixty days from the date of filing of this case is November 12, 2001.

to approve the amended contract and determine the appropriate rate treatment for the related costs in our final order in Docket No. 2001-634.⁵

3. LNG Supply Constraints

At the initial case conference on September 26, 2001, Northern announced that, as a result of the September 11, 2001 terrorist attacks and related threats to the security of the country, the Coast Guard had closed, pending further security analysis, Boston Harbor to LNG tankers that were scheduled to deliver supplies to the Distrigas tanks in Everett. The LNG stored in those tanks supplies New England with approximately 35% of its peak supplies during the winter period. Northern contracts with Distrigas for needed supplemental peaking supplies of LNG during the winter months, to be delivered both by pipeline injection at the Everett terminal and by truck to Northern's Lewiston LNG facility. Northern indicated that if the LNG tanker ban were continued beyond the short term, it would need to develop alternative peaking supply arrangements and that such arrangements would likely be obtained at additional costs. In its October 17, 2001 update, Northern reported that the Coast Guard had rescinded its order closing Boston Harbor to LNG tankers and that deliveries of LNG are scheduled to resume in early November 2001. Northern stated that despite the delay in shipments, it would be able to receive its entire contractual Distrigas product needed to meet its 2001-2002 winter supply requirements.

4. Financial Hedging Policy

Northern's hedging policy does not directly impact the current rates being approved in this case. We will address the policy in a supplemental order to be issued shortly.

5. Demand Forecasting

On August 15, 2001, Northern filed its report of demand forecasting methodology and the impact on unaccounted for gas in accordance with previous Commission directives. The report states that for the winter 2000 – 2001 period, Northern over-forecast total throughput (commodity and transport sales) by 6.4% after allowance for weather. Northern states that a portion of this error is attributable to an unexpectedly high BTU content of its fuel and to customer migration from sales to transportation. However, Northern also concludes that even after correcting for these errors, forecast commodity sales were still 3.2% above actual.

Northern indicates that it is "exploring other methods to supplement and/or replace the current methodology." We agree that this level of forecast error is

⁵ Under normal weather conditions, Northern is unlikely to require the use of this additional capacity during the early part of its winter season because the additional capacity is required to transport peaking supplies.

grounds to investigate alternative forecasting approaches. However, for the present, we will accept the Company's forecast and keep in place our prior directives to continue to file forecast reports with its CGF filings. We will also await the Company's conclusion of its internal unaccounted-for gas review and the report of new systems it is putting in place to address this issue. Northern expects to provide us with this report within a few months time.

6. Inventory Finance Costs

In its October 17, 2001 filing, Northern indicated that its original filing did not contain updated forecasted inventory finance costs, but contained the rate of 7.76% per annum as used in the Winter 2000-2001 CGF filing. Northern revised the rate to 3.43% in its updated forecast, reflecting its current cost of issuing commercial paper plus the administrative and other costs charged to Northern. The impact of this adjustment is to reduce the weighted cost of gas withdrawn from inventory and therefore, reducing the overall cost of gas.

V. CONCLUSION

The combination of substantial decreases in projected gas prices, increases in the Btu content of Northern's gas and a large under-collection in the prior winter period results in a decrease in the winter 2001-2002 CGF of \$0.0628 per ccf, or approximately 7% under last winter and approximately 0.1% over the rates implemented during the summer 2001 rate for residential customers.

These changes result largely from changes in market prices. Our Advisory Staff has reviewed the underlying reasons for these proposed rates and recommends their approval. We grant that approval.

Accordingly, we

O R D E R

1. That Northern Utilities, Inc.'s proposed revised CGF rates are approved for effect for gas consumed on or after November 1, 2001;
2. That Northern Utilities, Inc.'s Thirty-eighth Revised Sheet No. 20.1 constituting its Cost of Gas Factor for the period November 1, 2001 through April 30, 2002, is approved; and
3. That Northern Utilities, Inc.'s Tenth Revised Sheet No. 34.3, the Environmental Response Cost Adjustment rate schedule is approved and will become effective November 1, 2001.

Dated at Augusta, Maine this 29th day of October, 2001.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch

Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.